

Message Text

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INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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FM AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 00102

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: BURMAH OIL RESCUE BY BANK OF ENGLAND: BURMAH,
HMG AND PRESS COMMENTS

SUMMARY: BURMAH OIL RESCUE OPERATION MOUNTED BY BANK OF
ENGLAND (BOE) WITH HMG BACKUP GUARANTEE HAS CAUSED WIDE-
SPREAD PRESS COMMENT ON ATTENDANT CIRCUMSTANCES AND
BROADER IMPLICATIONS FOR UK ECONOMY, BALANCE OF PAYMENTS,
STERLING EXCHANGE RATE AND NORTH SEA DEVELOPMENT.

GOVERNMENT OFFICIAL HAS TOLD US CONFIDENTIALLY THAT AD
HOC BOE SOLUTION ADOPTED IN PART TO REASSURE INTERESTEQ

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PARTIES IN US, THAT ANY DISPOSAL OF BP STOCK BY BOE WILL

BE LOOKED AT VERY CAREFULLY BY GOVERNMENT AND WILL NOT BE STRAIGHT COMMERCIAL DEAL, AND THAT BURMAH'S AGREEMENT IN PRINCIPLE TO 51 PERCENT HMG PARTICIPATION SHOULD NOT AFFECT NEGOTIATIONS WITH OTHER OIL COMPANIES. SECSTATE FOR ENERGY VARLEY IS EXPECTED TO PROVIDE FIRST PUBLIC GOVERNMENT EXPLANATION OF LAST MINUTE HMG AND BOE INVOLVEMENT AFTER PARLIAMENT RECONVENES ON JANUARY 13. WHILE IT IS CERTAIN BURMAH WILL SELL OFF SUBSTANTIAL US AND OTHER ASSETS AS SOON AS POSSIBLE, IT IS AS YET UNCLEAR WHAT WILL BE ULTIMATE DISPOSITION OF BURMAH'S 21.6 PERCENT SHAREHOLDING OF BRITISH PETROLEUM PLEDGED AS COLLATERAL TO BOE. END SUMMARY

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1. ON NEW YEAR'S EVE IN STATEMENT DRAWN UP TOGETHER WITH HMG AND BOE, BURMAH OIL ANNOUNCED DETAILS OF BOE FINANCIAL RESCUE OPERATION. BURMAH REPORTED THAT AS RESULT OF LOSSES DUE LARGELY TO TANKER OPERATIONS, COMPANY LEFT WITH SMALL PROFIT MAKING IT UNABLE TO FULLY COMPLY WITH PROVISIONS OF LOAN AGREEMENT WITH BANKERS UNDER WHICH FOREIGN CURRENCY LOANS AMOUNTING TO \$650 MILLION HAVE BEEN ADVANCED IN CONNECTION WITH ITS OVERSEAS ACTIVITIES. IN ADDITION, SUBSTANTIAL FALL IN MARKET VALUE OF BURMAH'S 21.6 PERCENT SHARE OF BRITISH PETROLEUM ADVERSELY AFFECTED ITS ABILITY TO COMPLY WITH POUNDS54 MILLION STERLING LOAN. FOLLOWING WEEK-LONG DISCUSSIONS WITH HMG AND BOE, ARRANGEMENTS AGREED BETWEEN BURMAH AND BOE TO PROVIDE INTERIM SUPPORT PENDING LE OF CERTAIN MAJOR ASSETS WERE AS FOLLOWS:

- A) LONG-TERM \$650 MILLION BORROWING WILL BE RENEGOTIATED AS 12-MONTH LOAN GUARANTEED BY BOE.
 - B) BOE WILL ENABLE BURMAH TO DEAL WITH ITS STERLING BORROWINGS.
 - C) CHANGES WILL BE MADE IN COMPANY MANAGEMENT (MANAGING DIRECTOR AND CHIEF EXECUTIVE NICHOLAS WILLIAMS AND PRESIDENT OF BURMAH OIL TANKERS ELIAS KULUKUNDIAS RESIGNED ON JANUARY 2).
 - D) ACCOUNTANCY FIRM OF PEAT MARWICK MITCHELL WILL ASSIST IN FINANCIAL MANAGEMENT OF COMPANY.
 - E) FULL REVIEW OF TANKER OPERATIONS WILL BE UNDERTAKEN
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SECURITY FOR ASSISTANCE PROVIDED IS BURMAH'S UNPLEDGED HOLDINGS OF BRITISH PETROLEUM AND SHELL TRANSPORT AND TRADING SHARES WHICH WILL BE HELD AS COLLATERAL BY BOE WITH RIGHT OF REALIZATION. BURMAH WILL CONTINUE TO OWN SUBSTANTIAL ASSETS IN UK AND OVERSEAS WITH COMPANY PURSUING DEVELOPMENT OF ITS NORTH SEA INTERESTS, IN PARTICULAR NINIAN AND THISTLE FIELDS. IN ADDITION, BURMAH HAS ACCEPTED PRINCIPLE OF 51 PERCENT PUBLIC PARTICIPATION

IN THEIR SHARE OF THESE FIELDS. AT REQUEST OF COMPANY,
LONDON STOCK EXCHANGE AGREED TO TEMPORARILY SUSPEND
TRADING OF ALL COMPANIES SECURITIES.

2. ON JANUARY 1 BURMAH ISSUED FURTHER CLARIFYING STATE
MENT:

A) COMPANY CONTINUES TO TRADE NORMALLY.
B) REFERENCE TO FACT COMPANY MIGHT NOT BE FULLY ABLE
TO COMPLY WITH CERTAIN PROVISIONS OF FOREIGN CURRENCY
LOAN AGREEMENT IS RELATED SPECIFICALLY TO ASPECTS OF
COVENANTS AND RATIOS ASSOCIATED WITH SUCH AGREEMENTS AND
DOES NOT IN ANY WAY IMPLY INABILITY ON PART OF COMPANY TO
PAY DUE AMOUNTS EITHER OF PRINCIPAL OR OF INTEREST.

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C) COMPANY'S HOLDING OF 21.6 PERCENT SHARES OF BP HAS NOT BEEN TAKEN OVER EITHER BY GOVERNMENT OR BOE BUT HAS BEEN PLEDGED TO BOE AS COLLATERAL IN RETURN FOR ASSISTANCE PROVIDED, BOE BEING GIVEN RIGHT OF REALIZATION.

D) COMPANY HAS IN NO SENSE "GIVEN AWAY" TO GOVERNMENT 51 PERCENT OF ITS INTERESTS IN NINIAN AND THISTLE FIELDS. HMG HAS ALREADY ANNOUNCED ITS INTENTION TO SEEK TO NEGOTIATE A 51 PERCENT PARTICIPATION IN ALL NORTH SEA FIELDS. BURMAH HAS ACCEPTED THAT GOVERNMENT SHOULD ACQUIRE 51 PERCENT OF ITS OWN INTERESTS IN NORTH SEA. PRECISE TERMS OF GOVERNMENT PARTICIPATION REMAIN TO BE NEGOTIATED.

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3. EDITORIAL COMMENT FOCUSED ON DOMESTIC, INTERNATIONAL AND NORTH SEA REPERCUSSIONS OF BURMAH CRISIS. FINANCIAL TIMES BELIEVED GOVERNMENT HAD NO CHOICE BUT TO HELP OUT GIVEN FACT THAT BURMAH'S STABILITY WOULD AT ANY TIME BE OF MAJOR IMPORTANCE TO DOMESTIC ECONOMY AND BALANCE OF PAYMENTS, THAT DEFAULT ON DEBTS TO LARGE US BANKS CANNOT BE ALLOWED IN GENERAL INTEREST OF UK CREDIT WORTHINESS AND THAT BURMAH PLAYS IMPORTANT ROLE IN NORTH SEA DEVELOPMENT. FT EMPHASIZED THIS IS BANKING ARRANGEMENT AND ANY STAKE WHICH BOE MIGHT BE FORCED TO ACQUIRE IN BRITISH PETROLEUM WOULD BE REGARDED AS QUITE DISTINCT FROM GOVERNMENT'S EXISTING SHAREHOLDING; NEITHER US ADMINISTRATION NOR MIDDLE EAST PRODUCERS WOULD WELCOME AN EXTENSION OF UK GOVERNMENT CONTROL AND ANY APPEARANCE OF INCREASED CONTROL IS LIKELY TO BE AVOIDED BY ALL MEANS POSSIBLE. FT ALSO EMPHASIZED DECISION TO TAKE 51 PERCENT PARTICIPATION SHARE IS PART OF RESCUE OPERATION UNRELATED TO OVERALL HMG POLICY IN THIS SECTOR. ACCORDING TO FT, SUCH A MOVE WAS ALMOST CERTAINLY NECESSARY TO ENSURE THAT FINANCE FOR DEVELOPMENT WAS MADE AVAILABLE. NOTING THAT IT REMAINS TO BE SEEN WHAT HAPPENS TO BP SHAREHOLDING AND WHAT CHANNELS CASH FOR BURMAH'S NORTH SEA DEVELOPMENT PROGRAM IS PROVIDED, FT STATED THAT SO FAR THERE IS NO REASON TO SUPPOSE MORE IDEOLOGICALLY MINDED PROPONENTS OF STATE INTERVENTION IN INDUSTRY WILL BE ALLOWED TO BENEFIT FROM UNHAPPY SITUATION. FT MENTIONED LABOR GOVERNMENT, HOWEVER, THAT DEVELOPMENT OF NORTH SEA HAS PROVED TO BE BOTH SLOWER AND MUCH MORE EXPENSIVE THAN ORIGINALLY HOPED, THAT HUGE FUNDS NEEDED WILL NOT BE EASILY RAISED AND THAT IF GOVERNMENT DOES NOT WANT DEVELOPMENT TO BE STILL FURTHER DELAYED, IT CANNOT AFFORD TO BE TOO GRASPING IN DIVIDING PROFITS OF DEVELOPMENT

WITH COMPANIES PUTTING UP CAPITAL.

4. LONDON TIMES ALSO STRESSED THAT SCOPE OF BURMAH'S OPERATION, SIZE OF ITS DOMESTIC AND INTERNATIONAL BORROWINGS AND KEY ROLE IN NORTH SEA OIL DEVELOPMENT ALL COMBINED TO FORCE A GOVERNMENT REACTION. TIMES OBSERVED BURMAH CRISIS HAD CAUGHT GOVERNMENT AT A MOMENT WHEN MANY OF STRATEGIC POLICIES, SUCH AS STATE PARTICIPATION, CONFIDENTIAL

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TAXATION REGIME AND ESTABLISHMENT OF BRITISH NATIONAL OIL COMPANY, UNDER WHICH CRISIS MIGHT BE HANDLED ARE THEMSELVES IN A STATE OF FLUX. TIMES CHARACTERIZED SOLUTION OF TURNING PROBLEM TO BOE AS TEMPORARY ONE WHICH LEAVES OPEN MORE PERMANENT DECISIONS ON BURMAH'S FUTURE. IT COULD BE GIVEN TIME REQUIRED TO PUT ITS OWN HOUSE IN ORDER OR A FURTHER STAGE OF RECONSTRUCTION COULD TAKE PLACE UNDER SECSTATE FOR ENERGY VARLEY AND BRITISH NATIONAL OIL COMPANY OR UNDER SECSTATE FOR INDUSTRY ANTHONY BENN USING POWERS OF CURRENT OR FUTURE INDUSTRY ACT. TIMES CLAIMED THAT, WHILE SOME SECTIONS OF GOVERNMENT MIGHT FAVOR INCREASING PUBLIC STAKE TO OVER 70 PERCENT OF BRITISH PETROLEUM TO GIVE HMG STRONGER VOTING CONTROL OVER INTERNATIONAL OIL COMPANY, IT IS NOT CLEAR GOVERNMENT AS A WHOLE HAS YET ADVANCED TO SUCH A POINT. END UNCLASSIFIED

5. LIVERMAN (DEPUTY SECRETARY, DEPT OF ENERGY) TOLD US IN RESPONSE TO OUR QUERY THAT BOE RATHER THAN MINISTRY OF INDUSTRY OR NEW NATIONAL ENTERPRISE BOARD WAS USED AS VEHICLE FOR BURMAH RESCUE OPERATION IN PART TO HOLD OPEN OPTIONS FOR LATER DECISIONS BUT ALSO IN EFFECT TO REASSURE INTERESTED PARTIES IN US THAT HMG WAS NOT EMBARKING ON INDISCRIMINATE COURSE OF NATIONALIZATION IN NORTH SEA.

6. WITH REGARD TO BURMAH'S ACCEPTANCE OF 51 PERCENT HMG PARTICIPATION IN NINIAN AND THISTLE FIELDS, LIVERMAN CHARACTERIZED BURMAH AS UNIQUE SITUATION WHICH SHOULD NOT INFLUENCE NEGOTIATIONS BEING HELD WITH OTHER OIL COMPANIES. HE ADMITTED PACKAGE CONCEIVABLY COULD HAVE STOOD ON ITS OWN MERITS WITHOUT PARTICIPATION COMMITMENT BUT SAID THIS

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WAS WAY OF BOTH ACHIEVING GOVERNMENT POLICY OBJECTIVES
ON PARTICIPATION AND MAINTAINING PACE OF NORTH SEA DE-
VELOPMENT. HE BELIEVED BURMAH WOULD HAVE DIFFICULTIES
ENOUGH IN MEETING ITS OTHER CASH NEEDS.

7. ON ULTIMATE DISPOSAL OF BURMAH'S 21.6 PERCENT SHARE-
HOLDING IN BRITISH PETROLEUM, LIVERMAN SAID IT WOULD NOT
BE TREATED AS A STRAIGHT COMMERCIAL PROPOSITION. HMG
WOULD HAVE TO CAREFULLY SCRUTINIZE AND APPROVE ANY DIS-
POSITION BY BOE. HE DID NOT RULE OUT SHARES BEING RE-
TURNED TO BURMAH BY BOE OR POSSIBILITY HMG MIGHT OPT TO
PURCHASE THEM (PRESUMABLY FOR MANAGEMENT BY PROPOSED
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BRITISH NATIONAL OIL COMPANY). LIVERMAN STATED FLATLY
THAT SALE TO ANY FOREIGN PURCHASER, SUCH AS TO MIDDLE
EASTERN OR OTHER INTERESTS, WOULD HAVE TO BE LOOKED AT

VERY CLOSELY.

8. COMMENT: BURMAH WAS OVEREXTENDED AS RESULT OF RECENT
ILL-TIMED ACQUISITIONS ON GRANDIOSE SCALE. IN OUR VIEW
BURMAH CASE IS RATHER UNIQUE AND DOES NOT HERALD GENERAL
OR WIDESPREAD COLLAPSE OF OTHER BRITISH CONCERNS ENGAGED
IN NORTH SEA DEVELOPMENT OR BRITISH INDUSTRY GENERALLY'
NEITHER DO WE BELIEVE IT SHOULD RESULT IN INCREASED, AL-
BEIT ALREADY SIGNIFICANT, DIFFICULTIES FOR OTHER OIL
COMPANIES IN FINANCING NORTH SEA DEVELOPMENT. END COMMENT

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